73 - Franchising Services

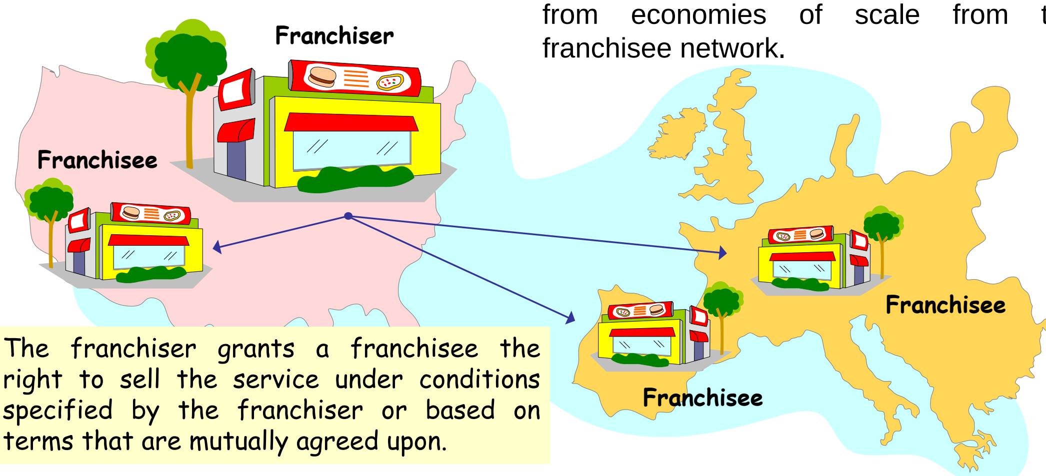
Franchising helps replicate a successful service experience at several geographical locations. By franchising, franchisers expand their services through contractual agreements with investors. These investors set up independently owned operations under specifications of the franchiser. This way, franchisers need not use internal profits or capital to generate finance to expand the business.

Franchiser

Is the owner of a successful service that needs replication. Franchisers specify the terms and conditions of franchising to franchisees. These include specifications, design, accounting, products to be sold and pricing.

Franchisee

Even though franchisees are owners of the business, they surrender much autonomy to benefit from the franchiser's idea. The franchisee benefits from using the franchiser's established brand name, advertising and experience in managing the service. The franchisee also benefits from economies of scale from the franchisee network.



Franchise agreement and contracts

1. A good franchise agreement protects the interests of both the parties involved and should not unfairly favor the franchiser.
2. Contracts need to state franchiser expectations clearly, to help franchisees comply with specifications, standards and operational guidelines.
3. Contracts need to specify how profits from the business would be shared between the partners and the franchisee contribution towards national advertising and other promotional activities.
4. Franchisees need to know if franchisers are likely to cluster many franchisees close to one another.
5. The parties need to agree on upgrading service facilities in future and the extent to which new technologies will be incorporated.
6. The contract needs to specify the nature of binding purchases by the franchisee from the franchiser. Contracts usually allow franchisees to buy from other suppliers who meet franchiser specifications.